

Complaint

Mr P says he asked for a payment break in August 2018, but Provident Personal Credit Limited (trading as Satsuma) did not inform him of the consequences of not making his repayment. And that the lender's actions will affect him trying to obtain credit in the future. Mr P also says the loans he took out with Satsuma were unaffordable.

Background

Mr P took two instalment loans from Satsuma between February 2018 and May 2018. A summary of Mr P's borrowing, based on the information provided to us by Satsuma, can be found in the table below:

loan number	received date	actual repayment date	number of Instalments	loan amount	combined max monthly repayment
1	24/02/2018	outstanding	12	£1,000.00	£166.00
2	04/05/2018	outstanding	9	£300.00	£232.60

In our adjudicator's most recent findings, he thought the checks Satsuma completed for Mr P's first loan were proportionate and so it wasn't wrong of Satsuma to have provided this loan. But he thought Satsuma's checks should've gone further for loan 2. Had more in-depth checks been carried out the adjudicator thought Satsuma would have seen that Mr P had a number of outstanding loans with other short term lenders, and knowing this Satsuma shouldn't have provided this loan.

With regards to Mr P's complaint about the lack of information provided by Satsuma when he needed to take a break from his repayments in August 2018, our adjudicator didn't think the lender needed to do anything more than what it had offered.

Mr P has told us he agrees with our adjudicator's opinion. But Satsuma didn't respond.

As no agreement could be reached, the case has been passed to me for a final decision.

My findings

I've considered all the available evidence and arguments to decide what's fair and reasonable in the circumstances of this complaint. We've set out our general approach to complaints about short-term lending - including all of the relevant rules, guidance and good industry practice - on our website.

Satsuma needed to take reasonable steps to ensure that it didn't lend irresponsibly. In practice this means that it should have carried out proportionate checks in order to reasonably conclude Mr P could repay the loans in a sustainable manner.

These checks could take into account a number of different things, such as how much was being lent, the repayment amounts, and the consumer's income and expenditure. With this in mind, in the early stages of a lending relationship, I think less thorough checks might be reasonable and proportionate.

But certain factors might point to the fact that Satsuma should fairly and reasonably have done more to establish that any lending was sustainable for the consumer. These factors include:

- the *lower* a customer's income (reflecting that it could be more difficult to make any loan repayments to a given loan amount from a lower level of income);
- the *higher* the amount due to be repaid (reflecting that it could be more difficult to repayment from a particular level of income);
- the *greater* the number and frequency of loans, and the longer the period of time during which a customer has been given loans (reflecting the risk that repeated refinancing may signal that the borrowing had become, or was becoming, unsustainable).

There may even come a point where the lending history and pattern of lending itself clearly demonstrates that the lending was unsustainable.

To begin with, Mr P has already accepted our adjudicator's findings for loan 1. So as this loan is no longer in dispute, I have no reason to reach any findings about it in this final decision. But I will still take this loan into account when looking at Mr P's overall borrowing history.

Mr P applied for his second loan whilst he was still repaying loan 1. This meant Satsuma needed to be satisfied that Mr P could sustainably make the combined monthly repayment of £232.60.

Satsuma has told us it enquired about Mr P's income and expenses, and it also used information from the Credit Reference Agencies (CRAs). From the information it gathered, it added further Safe Guards and buffer amounts on top of the information Mr P declared about his monthly expenses. But even taking these extra buffers into account the information Satsuma obtained indicated that Mr P would be in a position to afford this loan.

It also appears that Mr P's loan applications were initially declined. But following receipt of his payslips, Satsuma was satisfied based on what it saw that Mr P would be in a position to be able to afford both of his loans.

But Satsuma was required to establish whether Mr P could sustainably repay his loans – not just whether the loan payments were affordable on a strict pounds and pence calculation. The loan payments being affordable on this basis *might* be an indication Mr P could sustainably make his repayments. But it doesn't automatically follow that this is the case.

I acknowledge that Satsuma completed an enhanced level of affordability checks following the information it received about Mr P at the time of the applications. But bearing in mind the fact this was Mr P's second request for a loan in just over two months and that he was now committing himself to repaying two loans with a larger overall repayment, over the next nine months – I think Satsuma needed to do more.

So, I think Satsuma should've carried out a full review of Mr P's financial position for loan 2 – which ought to have included asking to verify some of the information he had provided about his circumstances. But Satsuma didn't take steps to verify Mr P's expenditure and instead chose to rely on what Mr P told it, so I don't think that its checks were reasonable and proportionate.

With this in mind, I've had a look at Mr P's circumstances at the time of loan 2 with a view to seeing what additional checks would have likely shown Satsuma. In order to do this I've considered Mr P's credit file and I can see he had four outstanding loans with other short term lenders with repayments totalling £451 for these four loans. On top of this, Mr P's repayments for his two Satsuma loans would've meant he was repaying over £680 a month alone to short term lenders against a £1,800 monthly income.

In these circumstances, I don't think it was reasonable for Satsuma to think Mr P could sustainably meet his repayments over the term of the loan. So, I'm upholding Mr P's complaint about loan 2.

additional information

Mr P has said that Satsuma did not fully inform him of the consequences of missing his repayment in August 2018. The customer contact notes provided by Satsuma shows Mr P called on 24 August 2018 to ask for some breathing space following a football injury. Subsequently, Satsuma agreed for no payment to be made for that month. It appears something prompted Mr P to call back five days after this was agreed. And this is when he discovered his account was in arrears.

Whilst I don't know exactly what was agreed between Mr P and Satsuma, I can see once Mr P was aware of the arrears on his account he made his repayments for both loans as well as an extra repayment for September 2018, bringing his loan accounts up to date. It doesn't appear that Satsuma actually recorded any arrears on Mr P's account at this time And it doesn't appear that at the time that any adverse credit file information was reported either.

Whilst Satsuma has accepted it could have given clearer information about the consequences of Mr P not making his repayment, I don't think it's unreasonable that Satsuma has apologised in these circumstances. So I'm not going to ask it to do anything different.

I can see that Satsuma has updated Mr P's credit file from December 2018, but this is likely due to Mr P paying a reduced amount of between £1 and then £2 per month towards his loans. However, I would like to remind Satsuma that any information it does record on Mr P's credit file should be accurate. And that it should continue to treat Mr P fairly whilst he is still repaying his loans.

Putting things right – what Satsuma needs to do

- Satsuma should remove all unpaid interest and charges from loan 2, meaning Mr P only has to repay the principle sum for this loan. Satsuma should then apply all payments made by Mr P as if they had been repayments towards the principal sum lent.

- If after doing this, Mr P has already paid enough for loan 2 to be fully repaid, then any overpayment needs to be refunded, from the date the over payment became due to the date of settlement. In addition Satsuma would need to pay interest of 8%* simple a year on any over payment from the date it became due to the date of settlement.
- Satsuma can then use any overpayment to offset against any outstanding balance for loan 1. If after the offset, Mr P still owes an outstanding balance, then Satsuma should try and agree an arrangement with Mr P to repay the balance.
- Satsuma should remove any negative about loan 2 from Mr P's credit file once the loan has been repaid.

*HM Revenue & Customs requires Satsuma to take off tax from this interest. Satsuma must give Mr P a certificate showing how much tax it's taken off if he asks for one.

my final decision

For the reasons given above, I'm partially upholding Mr P's complaint.

Provident Personal Credit Limited should pay Mr P compensation as set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr P to accept or reject my decision before 3 May 2020.

Robert Walker
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